

January 17, 2003

Dear Colleague:

We write to invite you to become a cosponsor of the State and Local Aid and Economic Stimulus Act of 2003. This bi-partisan bill would provide \$40 billion in direct Federal aid to the states on a one-time basis. It will provide much needed stimulus, and it will help to relieve a severe fiscal crisis in the states that threatens our economic recovery.

States are in their worst fiscal position since World War II, with total state budget deficits estimated to be between \$61 billion and \$90 billion in fiscal 2004. These are staggering sums that represent approximately one out of every six dollars spent by the states. In many states deficits are running into the billions of dollars and, in some states, such as Alabama, California, Nevada, New York, Oregon and Texas, the deficit's estimated percentage of total state spending is 25 percent or more. As almost every state is required by law to have a balanced budget, their only options are to raise taxes and/or cut spending.

States are being forced to increase taxes at every level. This includes higher income tax rates, skyrocketing property tax rates, and increasing sales taxes, excise taxes, and other fees. This heavier state and local tax burden hurts all Americans and threatens to undo any benefit from recent and proposed Federal tax reductions.

States are also in the process of cutting thousands of state jobs. This follows two years of deteriorating economic and fiscal conditions and already substantial private and public sector job loss. The jobs that will be cut are vital to our states: policemen, firefighters, teachers, postal workers, and bus drivers. These are the jobs of the everyday heroes that we celebrated after the tragedies of September 11th.

States also are being forced to eliminate many vital programs and reduce funds available for those programs that remain. Programs at risk include childcare, elementary, secondary and higher education, health insurance programs, and development of the public health infrastructure. Without funding, school districts are expecting to cut personnel, increase class sizes, and delay necessary upgrades in facilities and programs. As one school superintendent stated, "It is the worst thing that has happened in my thirty years in public education." This comes at a time when, as a nation, we are striving to raise our children's test scores and improve overall school performance.

Medicaid and other important health programs are also at risk. Without adequate funding, states are being forced to cut insurance benefits or deny services. The result, as recently reported in the New York Times, is that one to two million people are at risk of losing healthcare insurance coverage, dramatically increasing the ranks of the uninsured. Furthermore, reductions

in our public health infrastructure will impact our states' ability to prepare for and respond to unforeseen epidemics and bio-terrorist threats.

In addition, states now face extraordinary demands to provide the protection citizens require in the new post-9/11 world. They face increased responsibilities to patrol ports, bridges and tunnels, to train emergency response personnel, and to put in place the infrastructure to protect their citizens. These important measures require funds that states are struggling to find.

The solution to this crisis is to provide direct Federal Aid to the states. The legislation we are introducing, the State and Local Aid and Economic Stimulus Act of 2003, is a bi-partisan stimulus bill that will provide states with \$40 billion in direct Federal aid. The amount that each state receives will be based on each state's size, as measured by state population, and need, as measured by each state's change in unemployment rate over the past two years. The bill allocates one-half of each state's funds to its localities. This shot in the arm will not be a long-term revenue sharing program. It will be a one time grant to help weather the current crisis.

This bill will provide immediate, short term economic stimulus. A number of economists believe that state aid is, in fact, an extremely effective means of providing fiscal stimulus, because it quickly puts money in the hands of people who need it and will spend it. State aid also alleviates the need for states to cut more jobs, cut more programs, and raise taxes, which acts as an "anti-stimulus" on the economy. Without state aid, an individual's or family's decrease in Federal taxes could be surpassed by an increase in state and local taxes. As the bi-partisan National Governors Association put it, "The most powerful immediate economic stimulus the administration could have recommended would have been to provide assistance to states to forestall planned spending reductions and tax increases."

The bottom line is this: our states are in fiscal crisis. Our citizens are facing increasing state and local taxes at the same time that their Federal tax burdens are decreasing. That does not make sense. Families in need are seeing programs and services cut at the very time they are most critical. That is not fair. States and localities are not investing in the things their citizens desperately require – schools, homeland security, healthcare, and highways. That is shortsighted.

We believe our states need and deserve our help. We are introducing this legislation shortly and would greatly appreciate your co-sponsorship.

Sincerely,

Charles Schumer
United States Senator

Olympia Snowe
United States Senator

State and Local Aid and Economic Stimulus Act of 2003

Total Funding: \$40 billion

Two Pools of Funding – All funding that a state receives will be split 50 percent to state government and 50 percent to local governments.

Pool #1

- \$20 billion
- (all states qualify, state and local funding will be distributed based on population)

Pool #2

- \$20 billion
- (states meeting the established criteria qualify for this pool of funding. The criteria is based on level of growth in unemployment. Funding is distributed equally between state and local governments. Funding within each Tier below will be distributed based on number of unemployed persons)

Tier-One

\$5 billion divided among states with growth in unemployment from 2000 to 2002 of 0.4 percent to 1.0 percent

Tier-Two

\$15 billion divided among states with growth in unemployment for 2000 to 2002 above 1.0 percent

Priority for using the funds should be given to homeland security, Medicaid, public health, highway construction, childcare, elementary, secondary and higher education, and to prevent further property tax increases.